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SUBJECT: Brazil approves Venezuela's entry into Mercosul

REF: SAO PAULO 0222; 08 SAO PAULO 497; BRASILIA 1271; BRASILIA 1254

¶1. (U) SUMMARY: On December 15, the Brazilian Senate approved the Protocol to admit Venezuela as a member to the Southern Cone trade bloc Mercosul (Mercosur). The issue now moves to Paraguay for ratification by its Congress. In Brazil, there was some debate and political maneuvering to delay the vote, but in the end, the measure passed by a comfortable margin (35-27). GOB interest and business support was a major factor in the passage.

#### THE PROCEDURE

¶2. (U) The proposal to admit Venezuela as a member to the trade bloc Mercosul (Mercosur) was approved by the Brazilian Senate on December 15 after a long (but standard) period of procedural maneuvering, and after the parliaments of Venezuela, Argentina and Uruguay had already voted to approve it. Venezuela requested membership in December 2005 and the protocol was officially signed on July 4, 2006 by the Presidents of Mercosul member countries and Venezuela. In Brazil, the agreement was first submitted to the Chamber of Deputies in October 2007. In December 2008, the Chamber approved the protocol by a vote of 265 to 61, with 6 abstentions, and sent the Legislative Decree bill to the Senate. The proposal was discussed intensely in the Senate, with four public hearings and various procedural delays by opposition Senators. The bill was first approved by Senate Committees on Mercosul (in March) and Foreign Affairs (in October). After a year of procedural delays, committee consideration, and public hearings, the issue finally came to a vote, with President Lula's support, just before Congress is due to close for recess. The final floor vote was 35 versus 27. The agreement still needs to be approved by the Paraguayan Congress, where there are concerns that the opposition might turn it down. If admitted, Venezuela will be subject to the 1998 Declaration of Ushuaia, which requires a commitment to democratic principles. Mercosul-third parties agreements, such as the Free Trade Framework Agreement with Israel and other tariff preferential agreements, will not be binding on Venezuela; instead, there will be an option for them to accede on a case-by-case basis.

#### ARGUMENTS FOR . . . .

¶3. (U) In the justification to the President requesting approval of the Protocol, Minister of External Relations Celso Amorim asserted that the integration of Venezuela into Mercosul was important because the increased trade flow should result in development of the transportation and telecommunications infrastructure in the northern part of South America, and deepen

the region's economic and trade relations. Currently, Brazil imports oil, oil derivatives, and coal from Venezuela and exports food such as beef, chicken, and sugar to that country.

¶4. (SBU) Many senators seemed to focus on the argument given by Senator Aloisio Mercadante, government party (PT) leader in the Senate, who asserted that the isolation of Venezuela would be worse for Mercosul member nations than its accession. According to Mercadante, while governments come and go, trade, political and cultural integration have a lasting impact. Even stalwart opposition Senator Francisco Dornelles, told Econoff and Poloff that this was the determining factor in his support for the protocol.

. . . .AND AGAINST

¶5. (SBU) The main argument used by the opposition to Venezuela's accession to Mercosul was that Mercosul should not accept as a member any country run by a government with non-democratic practices, such as limitations to press freedom and attempts to consolidate power in the office of the Presidency in an unconstitutional manner. In addition, the opposition argued, the volume of trade does not justify including Venezuela in the bloc. Moreover, according to Senator Eduardo Azeredo, the Chairman of the Foreign Affairs Committee, based on testimony at the four public hearings it appears that Venezuela falls short of meeting the

technical requirements (such as prepared lists of exceptions to the common tariffs) to join Mercosul but a majority of the Senate was willing to overlook these deficiencies to approve Venezuela's admission. The opposition congressmen fear that the admission of Venezuela could bring more instability to a union already beleaguered by conflicts, such as the numerous disputes between Brazil and Argentina and the go-it-alone approach often followed by Uruguay.

#### THE POLITICS

¶6. (SBU) The vote broke down along governing coalition versus opposition lines; the only senator in the governing coalition to vote against the proposal was former President Fernando Collor (PTB). President of the Senate Jose Sarney had previously indicated his opposition but did not vote, per Senate tradition. Many Senators were absent, traveling to participate in Climate Change Negotiations in Copenhagen. Based on stated positions and party affiliation, some project that a full Senate would likely have provided a wider margin of victory, approximately 48-33.

¶7. (SBU) The vast majority of Senators from the government coalition partner PMDB and the right-center small parties (PP, PTB, PR), had long been well-disposed to support the government's proposal for Venezuela's accession, thanks to strong support from the business community. The vote along coalition lines masked the fact that many senators did not see this vote in black-and-white terms. Poloff, speaking to a number of members including influential Senator Arthur Virgilio, leader of the opposition PSDB, was told that several opposition senators were not vehemently opposed to Venezuela's accession, but would ultimately vote as a bloc against. On the other hand, many coalition senators, such as Senator Sergio Zambiasi of the PTB, voted in favor but privately admitted to Poloff to having reservations.

#### BUSINESS PERSPECTIVE

¶8. (SBU) Tomaz Zannoto of the Sao Paulo Federation of Industries (FIESP) told Sao Paulo Econoff that over the last three years, FIESP's position has been consistent: it does not have any objection to Venezuela joining Mercosul, as long as Venezuela abides by all technical and legal requirements. FIESP suspects that Venezuela is not abiding by these requirements at this time and assesses that Venezuela still has many issues to resolve - both internally and amongst Mercosul members. He noted that FIESP recognizes the importance of Venezuela and its potential as a trading partner.

¶9. (U) According to the newspaper FOLHA de SAO PAULO, the accession of Venezuela to Mercosul is commercially promising. In their report the day after the vote, Folha noted that, with a low level of Venezuelan imports to Brazil, the potential for increased Brazilian exports could lead to a projected USD 4.6 Billion trade surplus for Brazil. Growth is particularly likely in exports of food (Venezuela imports 75% of food consumed) and industrial durable goods. There is also potential for increased economic growth along the underdeveloped northern Brazil border with Venezuela due to increased trade.

¶10. (SBU) COMMENT: While there was some dissention and some controversy, in the end a majority of Brazilian Senators sided with the Lula administration in extending this opening to Venezuela. There has been some concern about giving Chavez a platform, but many seemed to believe that it was better to be inclusive and try to influence his behavior in a democratically-based, trade oriented regional group. Others no doubt felt less threatened by how Chavez might use or impede Mercosul given the perspective held by some that Mercosul is a largely ineffectual bloc kept together primarily

for the sake of regional unity. Business interests and the support of the Lula government were also influential in Senate passage of the protocol. While regional integration for economic purposes is broadly supported in Congress, government and opposition coalitions essentially voted along party lines, taking the opportunity to emphasize the differences between them on foreign policy in Latin America. However, as noted earlier, even the opposition was not strongly opposed. Support for Venezuela's accession to Mercosul is in keeping with the GOB's overall approach to foreign policy of prioritizing positive constructive relations with its neighbors and attempts to bring divisive actors, such as Chavez and Morales, into the fold via engagement rather than isolation.

KUBISKE